

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 850 (Prince George's County Delegation)
Ways and Means

Prince George's County - Telephone Service Tax - Education Funding
PG 427-97

This bill allows Prince George's County to levy a sales or use tax of up to 10% on telephone service, including personal communications and cellular telephone services. It requires Prince George's County to appropriate a portion of the revenues generated from this tax to the school operating budget each fiscal year. This bill takes effect June 1, 1997.

Fiscal Summary

State Effect: None.

Local Effect: Prince George's County revenues and expenditures could increase as discussed below.

Small Business Effect: Meaningful effect on small businesses in Prince George's County as discussed below.

Fiscal Summary

Local Revenues: Although this bill takes effect on July 1, 1997, the imposition of a tax would be contingent upon voter approval by referendum at the general election in November 1998. Assuming that this tax is enacted by the County Council subject to referendum, its earliest effective date would be July 1, 1999, thus making fiscal 2000 the first year in which revenues would be collected. This fiscal note is written to reflect the bill as it is drafted. This bill could increase Prince George's County revenues by \$30.8 million in fiscal 1998. A breakdown of those revenues is provided below.

<u>Source</u>	<u>Amount</u>
Local phone service tax	\$7.7 million
Long distance service tax	\$10.0 million
Cellular telephone and other services tax	<u>\$13.1 million</u>

Total Revenues **\$30.8 million**

Assuming that government and nonprofit institutions are exempt from this tax, this estimate is reduced by 20% to \$24.6 million. The estimates for the telephone tax are based on past Department of Fiscal Services estimates and Prince George's County's estimates of number 911 fee accounts in 1996. Future revenue estimates include 3.5% annual growth for local and long distance service and 10% annual growth for wireless service. Assuming this growth, revenues in the out-years are outlined below.

<u>Year</u>	<u>Amount</u>
FY 1999	\$26.2 million
FY 2000	\$27.8 million
FY 2001	\$29.7 million
FY 2002	\$31.5 million

Local Expenditures: This bill requires that Prince George's County appropriate local funds each fiscal year to the school operating budget in an amount that is no less than the amount of local funds appropriated to the school operating budget in the prior fiscal year. The county requested \$419.4 million in education funding for fiscal 1997. It is assumed that education funding for the county in fiscal 1998 would remain at that level or be increased. This bill would add to the appropriation by requiring that two-thirds of the telephone tax revenues generated from this tax each fiscal year would go to the school operating budget. Additionally, two-thirds of the difference between the projected revenues from this tax for a fiscal year and the projected revenues from the tax in the prior fiscal year would also be appropriated to the county's school operating budget beginning in fiscal 1999.

In fiscal 1998, the Prince George's County school operating budget would receive \$16.4 million of the telephone tax revenue. The amount of new tax revenue going to the school operating budget in the out-years is listed below.

<u>Year</u>	<u>Amount</u>
FY 1999	\$18.6 million
FY 2000	\$19.6 million
FY 2001	\$21.1 million
FY 2002	\$22.2 million

The Department of Fiscal Services advises that this bill could affect the calculation of the

education maintenance of effort requirement in Prince George's County. Pursuant to this legislation, for example, the minimum local contribution must exceed the contribution made in the prior year. Under current law, however, the minimum local contribution only has to equal the prior year's per pupil amount multiplied by the current enrollment. Accordingly, if student enrollment in the county declines, a higher local education appropriation would be needed to comply with the maintenance of effort requirement. In addition, current law establishes certain exemptions for non-recurring education costs that could reduce the minimum local contribution. This bill, however, does not provide for any such exemptions.

Small Business Effect: This bill could result in a 10% increase in the telecommunications expenditures of small businesses in Prince George's County. As discussed above, the bill could increase county-wide revenues for telecommunications services by \$24.6 million beginning in fiscal 1998. However, the amount of this increase that would be borne by small businesses cannot be reliably estimated at this time.

Information Source(s): Prince George's County, Department of Fiscal Services

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